

Message Text

PAGE 01 STATE 096629

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FM SECSTATE WASHDC

TO AMEMBASSY SAIGON

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E. O. 11652: GDS

TAGS: ECON, VS

SUBJECT: CODEL INOUE TRIP REPORT

FOR YOUR INFORMATION, THE CONCLUSIONS AND RECOMMENDATIONS
CONCERNING VIET- NAM CONTAINED IN THE INOUE COMMITTEE
REPORT FOLLOW:

QUOTE 1. THE CEASE- FIRE AND REDUCED TEMPO OF CONFLICT IN
VIET- NAM HAVE MADE PRIOR YEARS' PLANS, PROGRAMS AND
UNITED STATES OBJECTIVES OBSOLETE.

2. A MEW MASTER PLAN FOR UNITED STATES INVOLVEMENT HAS
NOT YET EMERGED. IT IS NOT CLEAR JUST WHAT UNITED STATES
OBLIGATIONS WILL BE, WHAT THEY WILL COST, OR HOW THEY
WILL BE ADMINISTERED. UNITED STATES OFFICIALS IN THE FIELD
DO NOT KNOW WHAT, IF ANY, PLANS CURRENTLY EXIST FOR
RECONSTRUCTION IN SOUTH VIET- NAM OR IN THE INDOCHINA
AREA AS A WHOLE.

3. IT IS CLEAR THAT SOUTH VIET- NAM WILL NEED SUBSTANTIAL
EXTERNAL ASSISTANCE FOR SOME TIME TO COME FOR THE RELIEF
AND REHABILITATION OF REFUGEES, TO RECONSTRUCT THE ECONO-
MY, AND TO PROMOTE REASONABLE GROWTH AND STABILITY.

SECRET

PAGE 02 STATE 096629

4. UNITED STATES OFFICIALS IN SAIGON ESTIMATE THAT
DURING THE NEXT FIVE YEARS, THE NEEDS WILL START AT
DOLS. 750 MILLION AND GRADUALLY REDUCE TO DOLS 520 MILLION
A YEAR , BASED ON A NUMBER OF ASSUMPTIONS WHICH MAY OR

MAY NOT MATERIALIZE.

5. THE DELEGATION BELIEVES THE BURDEN OF EXTERNAL ASSISTANCE SHOULD NOT FALL COMPLETELY ON UNITED STATES SHOULDERS. ANY PLAN FOR RECONSTRUCTION MUST BE GEARED REALISTICALLY TO LESSENING VIET- NAM'S DEPENDENCE ON THE UNITED STATES.

6. ONE WAY TO DO THIS IS TO MOVE TOWARDS THE INTERNATIONALIZATION OF AID -- POSSIBLY AN ARRANGEMENT PATTERNED AFTER THE INTER- GOVERNMENTAL GROUP ON INDONESIA OR SOME OTHER CONSORTIUM ARRANGEMENT.

7. ACCORDING TO THE MISSION, THE BEST FORM OF AID IS LIKELY TO BE THE LEAST POPULAR WITH POTENTIAL DONORS. WHAT IS NEEDED IS FOREIGN EXCHANGE TO FINANCE IMPORTS GENERALLY NEEDED BY THE ECONOMY AND TO RAISE LOCAL CURRENCY TO PAY LOCAL PROJECT COSTS THAT DO NOT HAVE A HIGH FOREIGN EXCHANGE COMPONENT. ALSO, THE TERMS OF AID SHOULD BE AS LENIENT AS POSSIBLE IN THE EARLY PHASES OF THE POST CEASE- FIRE PERIOD.

8. THE DELEGATION ASSERTS THAT THE UNITED STATES SHOULD NOT BE PUT IN THE POSITION OF PROVIDING THE LEAST PREFERRED FORM OF AID WHILE OTHER DONORS TAKE ADVANTAGE OF THIS ECONOMIC UMBRELLA TO PROVIDE AID IN A FORM OR ON TERMS GEARED MORE CLOSELY TO THEIR TRADE AND INVESTMENT INTERESTS. MAJOR EFFORTS MUST BE MADE TO PERSUADE DONORS TO PROVIDE AID ON LIBERAL TERMS.

9. ANOTHER WAY TO LESSEN DEPENDENCE ON UNITED STATES GRANT AID WOULD BE FOR VIET- NAM TO DEVELOP EXPORT INDUSTRIES OR IMPORT- SUBSTITUTION INDUSTRIES. THIS WILL REQUIRE CAPITAL -- HOPEFULLY IN THE FORM OF INVESTMENT WHICH ALSO WILL BRING MANAGERIAL KNOW- HOW.

SECRET

PAGE 03 STATE 096629

10. THERE APPEAR TO BE A WIDE RANGE OF PRODUCTS THAT COULD BE EXPORTED OR PRODUCED LOCALLY TO REDUCE DEPENDENCE ON IMPORTS. THE MISSION HOPES THAT FOREIGN EXCHANGE SAVINGS OR EARNINGS COULD REACH A LEVEL OF DOLS 225 MILLION BY 1975 OR 1976.

11. THE OVERSEAS PRIVATE INVESTMENT CORPORATION(OPIC) COULD STIMULATE AMERICAN INVESTMENT BY PROVIDING

GUARANTEES. THE EXPORT- IMPORT BANK COULD PROMOTE AMERICAN EXPORTS OF MACHINERY AND OTHER CAPITAL GOODS NEEDED TO BUILD AN INDUSTRIAL BASE. HOWEVER, OPIC AND EXPORT- IMPORT BANK INVOLVEMENT IS FRAUGHT WITH DANGER BECAUSE OF THE UNCERTAIN POLITICAL AND MILITARY SITUA-

TION AND VIET- NAM' S ALMOST TOTAL DEPENDENCE ON OUTSIDE ASSISTANCE TO FINANCE IMPORTS.

12. MORE STUDY MAY BE NEEDED, BUT ONE FACTOR TO CONSIDER IS WHETHER THE ALTERNATIVE TO UNITED STATES TRADE AND INVESTMENT IS TO CONTINUE VIET- NAM' S HEAVY DEPENDENCY ON UNITED STATES AID. ANOTHER POSSIBILITY IS THAT OTHER COUNTRIES, WHICH DID NOT PARTICIPATE IN UNITED STATES EFFORTS TO KEEP SOUTH VIET- NAM FREE FROM OUTSIDE DOMINATION DURING THE WAR, MIGHT REAP TRADE BENEFITS BY DEFAULT WHEN PEACE IS RESTORED.

13. THE MISSION IS CONCERNED WITH THE INCREASED COST OF TIED- AID AND WOULD LIKE TO UNTIE AMERICAN AID TO A GREATER EXTENT THROUGH A TRADE- OFF WITH OTHER POSSIBLE AID DONORS. THAT IS, THE UNITED STATES WOULD UNTIE ITS AID AS A BARGAINING TACTIC TO INDUCE OTHER COUNTRIES TO DO THE SAME. THE DELEGATION UNDERSTANDS THIS VIEW BUT DOES NOT FAVOR UNTYING UNITED STATES AID UNLESS SUCH A MOVE COULD BE SOLIDLY JUSTIFIED IN TERMS OF UNITED STATES ECONOMIC INTERESTS AND THAT OUR TRADE POSITION WITH VIET- NAM COULD BE HELPED RATHER THAN HINDERED BY SUCH A MOVE.

14. THE DELEGATION BELIEVES THAT THE POLICY OF PLACING SECURITY CLASSIFICATIONS ON PHOTOGRAPHS OF NORTH VIET- NAMESE TARGETS STRUCK BY UNITED STATES BOMBERS HINDERED
SECRET

PAGE 04 STATE 096629

THE ADMINISTRATION' S EFFORTS TO CONVINCE THE PUBLIC THAT THE BOMBINGS WERE RESTRICTED TO ESSENTIAL TARGETS AND ATTEMPTED TO MINIMIZE CIVILIAN CASUALTIES.

15. MUCH OF THE SURPLUS AND EXCESS PROPERTY CREATED BY REDUCTIONS OF UNITED STATES PERSONNEL AND THE EARLY CLOSE- OUT OF CONTRACTS HAS BEEN REDISTRIBUTED OR DISPOSED OF. VIET- NAM HAS BEEN A MAJOR BENEFICIARY. THE DELEGATION IS PLEASED WITH THE INFORMATION THAT CLOSE TO DOLS 100 MILLION WORTH OF EQUIPMENT WILL BE PUT TO USEFUL ECONOMIC PURPOSES. IT QUESTIONS, HOWEVER, WHETHER VIET- NAM HAS THE CAPABILITY TO REPAIR AND USE THIS EQUIPMENT IN THE RELATIVELY NEAR FUTURE. IF NOT, IT PROBABLY SHOULD BE REDISTRIBUTED TO OTHER PLACES WHERE IT CAN BE USED MORE PROMPTLY AND EFFECTIVELY.

16. VIET- NAM OBVIOUSLY HAS A GREAT NEED FOR LOCAL CURRENCIES AND ONE WAY TO RAISE REVENUE IS BY TAXING THE WEALTHY. THE DELEGATION WAS DISTURBED TO FIND THAT THERE NEVER HAS BEEN A SUCCESSFUL PROSECUTION FOR INCOME TAX EVASION.

17. UNITED STATES HUMANITARIAN ASSISTANCE EFFORTS

HAVE HELPED ALLEVIATE THE PLIGHT OF HUGE NUMBERS OF DISPLACED VIETNAMESE. INFORMATION SUPPLIED BY THE AGENCY FOR INTERNATIONAL DEVELOPMENT, AND THE DELEGATION'S OBSERVATIONS AT SEVERAL REFUGEE AND RESETTLEMENT SITES, SHOWS THAT OUR GOVERNMENT HAS NOT BEEN INDIFFERENT TO THESE WAR VICTIMS. THIS IS IMPORTANT BOTH FOR HUMANITARIAN REASONS AND BECAUSE EMBITTERED REFUGEES WOULD POSE A THREAT TO THE DEVELOPMENT OF AN INDEPENDENT SOUTH VIET- NAM.

18. AFTER SEVERAL UNSUCCESSFUL EFFORTS, MEANINGFUL LAND REFORM SEEMS TO BE UNDER WAY IN VIET- NAM. THE AGENCY FOR INTERNATIONAL DEVELOPMENT INDICATES THAT THE PROGRAM IS A HUGE SUCCESS AND THAT IT HAS ALREADY HAD SOME FAVORABLE ECONOMIC, SOCIAL AND POLITICAL BENEFITS ALTHOUGH IT STILL IS TOO EARLY TO MEASURE THE IMPACT.

SECRET

PAGE 05 STATE 096629

THE PROGRAM WILL BE COSTLY AND THE CONGRESS WILL WANT TO CAREFULLY SCRUTINIZE FUTURE AID REQUESTS.

19. IF THE VIETNAMESE LAND REFORM PROGRAM IS AS SUCCESSFUL AS CLAIMED, THE DELEGATION BELIEVES THERE WOULD BE VALUE FOR THE AGENCY FOR INTERNATIONAL DEVELOPMENT TO DETERMINE THE UNDERLYING REASONS AND APPLY THEM TO THE FLEDGLING PROGRAM IN THE PHILIPPINES. THERE SHOULD NOW BE A BODY OF INFORMATION ON WHAT DOES OR DOES NOT WORK THAT WOULD HELP AVOID PITFALLS IN THE PHILIPPINES.

20. AID OFFICIALS SERVING ABROAD RECEIVE MANY ADDITIONAL BENEFITS, INCLUDING POST DIFFERENTIALS, HOUSING ALLOWANCES AND THE LIKE. THE DELEGATION OBSERVED THAT EMPLOYEES IN VIET- NAM RECEIVE FREE AUTOMOBILE TRANSPORTATION TO AND FROM WORK AND FOR RECREATIONAL PURPOSES. MANY PERSONNEL HAVE CHAUFFERS. THE DELEGATION SEES NO REASON WHY UNITED STATES OFFICIALS SHOULD NOT HAVE TO PAY FOR SUCH SERVICES JUST LIKE EVERY OTHER AMERICAN CITIZEN.

21. THE DELEGATION OBSERVED A JAPANESE HOSPITAL IN VIET- NAM, WHICH IS HIGHLY VISIBLE. THE UNITED STATES AID PROGRAMS ARE MANY TIMES MORE EXPENSIVE BUT ARE VIRTUALLY UNKNOWN TO THE LOCAL POPULACE , WHEREAS OTHER COUNTRIES

GET MUCH PUBLICITY FROM RELATIVELY SMALL EXPENDITURES. THE DELEGATION HOPES THE UNITED STATES WILL TRY TO PROVIDE AID IN A FORM THAT MORE TANGIBLY SHOWS THE CONCERN THE AMERICAN PUBLIC HAS FOR POOR PEOPLE ABROAD.

22. THE DELEGATION IS GLAD TO SEE THAT THE MISSION HAS SOME PROGRAMS THAT UTILIZE REIMBURSEMENT TECHNIQUES AND THAT IT IS STUDYING BROADER APPLICATION. THE DELEGATION BELIEVES A SCHEME SIMILAR TO THAT PROPOSED IN THE

INDONESIA CHAPTER OF THIS REPORT MIGHT WORK IN VIET- NAM
AND RECOMMENDS THAT THE MISSION CAREFULLY CONSIDER
THIS MATTER.

23. THE DELEGATION OBSERVED UNUSED EQUIPMENT AND SUPPLIES
WHICH ARE INDICATIVE OF POOR COORDINATION OF REQUIRE-
MENTS AND PROCUREMENT IN VIET- NAM. IT APPEARS THAT THE
SECRET

PAGE 06 STATE 096629

SEPARATE MINISTRIES BUY SIMILAR EQUIPMENT AND SUPPLIES
WITH UNITED STATES FUNDS WITHOUT CHECKING WITH EACH
OTHER TO SEE IF NEEDS COULD BE SATISFIED WITH STOCKS
ON HAND.

24. THE PUBLIC SAFETY PROGRAM IN VIET- NAM INVOLVES THE
AGENCY FOR INTERNATIONAL DEVELOPMENT IN AN OPERATION
THAT APPEARS IDENTICAL TO A REGULAR MILITARY PROGRAM.
IF THERE IS JUSTIFIABLE REASON FOR CONTINUING THE PRO-
GRAM, IT SHOULD BE FUNDED WITH DEPARTMENT OF DEFENSE
OR MILITARY ASSISTANCE FUNDS. UNQUOTE RUSH

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